23 May 2016

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International Federation of Accountants  
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Dear Ken

Exposure Draft: Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client

Thank you for the opportunity to comment on this Exposure Draft (ED). CPA Australia is one of the world’s largest professional accounting bodies, with a membership of more than 155,000 finance, accounting and business professionals and leaders in 118 countries. We make this submission on behalf of our global membership and in the broader public interest.

In line with our comments to IESBA’s Exposure Draft: Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client, CPA Australia is unable to support the key proposals of the current ED to increase the cooling-off period for the engagement quality control reviewer (EQCR) from 2 to 5 years for listed Public Interest Entities (PIES) and from 2 to 3 years for non-listed PIES. Our position is based on the absence of clear evidence indicating that these changes would more effectively address potential threats and positively impact audit quality.

In addition, we do not support the proposed change in the requirements between listed and non-listed PIES. We think this additional differentiation is not conducive to improving public trust and the rationale for it is rather fragile.

Overall, we find the revised proposals more complex, onerous and not based on any evidence that they will result in improvements to the effectiveness of safeguards, thus we do not support them. The lack of evidence and selective emphasis on specific views is also creating a risk, as the potential consequences may not be adequately ascertained or considered. There is no evidence that the assumptions of the proposals will lead to improvements have been tested or the possibility has been considered that the proposals may actually have a negative impact on audit quality and public trust, and what these could be in some circumstances.
Specific Comments

Refinements to the Code

Cooling-Off Period for the EQCR on the Audit of a PIE

1. Do respondents agree that the IESBA’s proposal in paragraphs 290.150A and 290.150B regarding the cooling-off period for the EQCR for audits of PIEs (i.e., five years with respect to listed entities and three years with respect to PIEs other than listed entities) reflects an appropriate balance in the public interest between:

(a) Addressing the need for a robust safeguard to ensure a “fresh look” given the important role of the EQCR on the audit engagement and the EQCR’s familiarity with the audit issues; and

(b) Having regard to the practical consequences of implementation given the large numbers of small entities defined as PIEs around the world and the generally more limited availability of individuals able to serve in an EQCR role? If not, what alternative proposal might better address the need for this balance?

CPA Australia is unable to support the key proposals to increase the cooling-off period for the EQCR from 2 to 5 years for listed PIEs and from 2 to 3 years for non-listed PIEs, as we have not been convinced that there is evidence to support this increase.

However, if the increase is going to be adopted we support that it is 3 years for both listed and non-listed PIEs, as we do not think that the threats vary between the two groups.

We are of the view that a ‘fresh look’ does not necessarily provide a robust safeguard. Objectivity, professional competence and due care and having the skills to have an inquiring mind does. So we believe that the profession should focus on the development of professional competencies, if that is in fact an identified deficiency. Also, there is no evidence that two years is an insufficiently robust safeguard and we need to be alert to the possible positive and negative consequences. Increasing the cooling-off period for the EQCR could adversely impact the audit market and audit quality in many jurisdictions. In Australia, for example, the geographical spread, industry-specific competencies (e.g. extractive industries) and a reducing auditor population would be expected to present challenges to the quality of the EQC review in order to meet the increased cooling off period that may far outweigh any potential benefits. CPA Australia has consistently been calling for evidence based standards that would address these concerns.

It is our view that the proposals could result in mandatory firm rotation, particularly in the SMP market, and this potential and its likely consequences need to be examined in different contexts.

Jurisdictional Safeguards

2. Do respondents support the proposal to allow for a reduction in the cooling-off period for EPs and EQCRs on audits of PIEs to three years under the conditions specified in paragraph 290.150D?

We support the retention of the two year cooling off period in the absence of any evidence to the contrary. However, if IESBA is going to extend the cooling off period we support the proposal to allow for a reduction in the cooling-off period for EPs and
EQCRs on audits of PIEs to three years under the conditions specified in paragraph 290.150D.

3. If so, do Respondents agree with the conditions specified in subparagraphs 290.150D(a) and (b)? If not, why not, and what other conditions, if any, should be specified?

Yes we support the conditions, subject to our general comments above.

**Service in a Combination of Roles during the Seven-year Time-on Period**

4. Do respondents agree with the proposed principle "for either (a) four or more years or (b) at least two out of the last three years" to be used in determining whether the longer cooling-off period applies when a partner has served in a combination of roles, including that of EP or EQCR, during the seven-year time-on period (paragraphs 290.150A and 290.150B)?

We are of the view that the added complexity is unlikely to provide a more robust safeguard and we have not identified any evidence to indicate that it would. In addition, the increased cooling off period may have negative consequences rather than improvements in audit quality. We therefore do not support the increase of the cooling off period for KAPs who may satisfy the stated criteria.

If you have any questions regarding this submission please do not hesitate to contact Dr Eva Tsahuridu, Manager – Accounting Policy, at eva.tsahuridu@cpaaustralia.com.au or +613 9606 5159.

Yours sincerely

[Signature]

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